

SCRIPT FOR USING CROP INSURANCE SLIDES

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SLIDE 1 FEDERAL CROP INSURANCE REFORM ACT OF 1994

The rules of the game changed in 1994. Disaster programs and crop insurance were combined into one program. The federal government decided to discontinue disaster programs in favor of making the crop insurance program serve as the vehicle to cover production disasters in agriculture. The base level of crop insurance was provided to farmers at little or no cost as the means of providing CATASTROPHIC RISK PROTECTION. It was required in 1995 if a farmer participated in the government programs. It probably won't be required for 1996, but farmers will be required to "sign-away" any rights to disaster or crop insurance payments if they elect not to carry crop insurance.

SLIDE 2 WHAT DID I GET FOR MY \$50 FOR CAT INSURANCE

The reality of the situation is that by paying the \$50 administrative fee for CATASTROPHIC COVERAGE last year a farmer didn't get very much. It only provided insurance in the event that a real disaster hit. There would have been an insurance payment only if the loss were more than 50% and the price used to calculate would have only been 60% of expected price. That's only 30% coverage. The probability of payment is very low. Remember it was only "DISASTER" insurance. Probably not enough to keep anyone in business. With the CAT policy, you elect and agree to accept the loss of 50% of the crop without any insurance payment. Not much of a policy if you need more coverage to stay in business.

SLIDE 3 YIELDS NOT CERTIFIED WITH CAT

In this simplified example, without certifying yields, we can easily see that a farmer only has coverage for the crop equal to 17.55% of expected county crop value with CAT insurance, rather than the 30% mentioned previously. Without certifying yields, coverage is determined using a "T" yield which will probably be significantly lower than actual yield. The price election in the CAT policy is only 60% of expected price.

SLIDE 4 THE TWO-STEP -- Step One

Once you have decided that you want to carry crop insurance think about it as a two step process. The first step is to make sure you certify yields at least for the past four years. The more years you can certify the better.

SLIDE 5 IF YOU DO NOT CERTIFY ...

If you don't certify yields you will not receive all the potential benefits of the insurance you elect. It won't matter if you only select the CAT policy or if you elect to purchase more coverage.

SLIDE 6 YIELDS CERTIFIED WITH CAT

In this case, by certifying yields, maximum catastrophic coverage increase to \$99 per acre from the \$52.65 in the previous example. In the example it is assumed that yield is "certified" at 110 bushels per acre, but the price election remains at 60% (\$1.80 rather than \$3). Using these numbers a CAT policy holder increase coverage by 88% without any additional cost. A good deal that should not be overlooked.

SLIDE 7 ADDITIONAL INSURANCE IS PROTECTION ...

If you are going to buy crop insurance think seriously about purchasing insurance beyond the CAT level. Crop insurance can provide coverage for your investment in the crop you are going to produce. Not everyone needs to purchase crop insurance. If, however, you and/or your lender decides it is advisable or required you should probably purchase something beyond CAT.

SLIDE 8 LEVELS OF COVERAGE

There are four levels of coverage a producer can choose between. The two variables used to define the optional coverages are "%of yield" and "% of market price". The low combination 50/60 is the CAT policy and is available for a flat fee (last year \$50) to help defray administrative costs. There's nothing magic here - it didn't cost much and you didn't get much. The highest level of coverage is available at the 75/100 level. This selection means receive no payment unless you lose more than 25% of your insured yield (hopefully certified) and the payment, if any will be calculated at the market stated in the policy. Lower insured yield levels (50-60-70) % are available at the 100% price election.

SLIDE 9 UNINSURED PORTION (GRAPH)

Notice in this graph that you cannot insure more than 75% of the value of the crop. The levels of coverage, as compared to % of crop value, are specified at 30, 50, 65, and 75, but only if you certify your yield. Clearly if your farm business, in order to survive financially, MUST have cash sales guaranteed at some level greater than the 30% guaranteed by a "certified CAT" policy you should certainly consider "buying-up" to a higher level of coverage.

SLIDE 10 HOW DO I WEIGH

Only you can decide if you need the additional coverage provided by “buying-up”. You must weigh the risk of loss against the cost of insurance. Only you know what your financial position is. How much risk can you absorb? That depends on your cash reserves, the amount of unencumbered assets, your need for cash, and your tolerance for risk. The experts can’t tell you what coverage to carry, if any. They can help you determine if coverage is needed and the recommended amount, but only after you provide the needed financial and emotional information.

SLIDE 11 THE TWO-STEP -- Step Two

The first “buy-up” option, the 50/100 certified level, protects the cash at the 50% level. If it is decided that a minimal level of coverage is all that is needed, this option should be given serious consideration. The following example will show the effect of “buying-up” to this second level of coverage on the example we started with.

SLIDE 12 IF YOU PURCHASE A BUY-UP AT THE 50/100 LEVEL

(There are three technical errors in this slide but you can still use it)

1. CAT should not be in slide
2. 55% in 3rd line from the bottom should read 50%
3. 313% in 2nd line from bottom should read 213%

Coverage increases from the \$52.65 at the “uncertified CAT” level to \$165, more than 3 times the coverage and a 213% increase in coverage for a minimum premium cost. Premium rates at this level of coverage will be about \$1/acre for most producers. Using the “certified Cat” coverage, \$99, then the increased coverage is \$66 or 667%. In the final analysis you can view it this way. “Buying-up” from the certified CAT level (50/60) to the 50/100 level increases your guarantee from 30% of crop value to 50% of crop value for the minimal amount of about \$1 per acre.

SLIDE 13 TALK TO YOUR INSURANCE AGENT ...

Your insurance agent will be the best informed person to talk to concerning your need for insurance and the costs associated with “buying-up” if you decide that you need crop insurance. Your agent will be familiar with you and your business, a necessary foundation for making sound insurance decisions.

SLIDE 14 THINGS TO DO BEFORE YOU SEE YOUR INSURANCE AGENT

Collect your yield histories and how they compare to county averages. This will provide the certification necessary and allow you to decide between the different crop insurance policies available. If your yields move with the county consider the GRP (group) policy.

If not you will want to discuss the APH (actual production history) policy with your agent.

Be sure to have all your ownership and rental information available so that your agent can properly insure the various production units you have. Having this information will assure the policy is written correctly and will help minimize premiums.

Be clear about your goals and reasons for purchasing crop insurance. Uninformed or baseless decision making can be very costly. Maybe your business is highly leveraged with little cash reserve or additional borrowing capacity. Your business may need a 75/100 policy rather than a 50/100 policy.

SLIDE 15 QUESTIONS TO ASK YOUR INSURANCE AGENT

Be sure that you clearly understand the options that available to you. Be sure you understand what the acronyms MPCl, CAT, APH, GRP, AND NAP mean.

Ask your agent to do an analysis for your for and to show you the premiums for the alternative “buy-up” options available along with the coverages provided.

Ask your agent for the “deadlines” for sign-up and for late-planting and prevented-planting decisions.

Discuss your yields as they compare to county yields. Your agent should have computer software to help you look at this question. If not we can help you with that at the County Extension Office.